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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 002204

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SUBJECT: CANADIAN NEXEN IN THE HADRAMAUT: THE TERMINAL AND CPF

Classified By: Charge Alan Misenheimer for reasons 1.5(b,d).

11. (c) Begin summary: During an August 7-11 visit to the governorate of Hadramaut, Embassy officials toured oil company Canadian Nexen's Central Pumping Facility (CPF) and Export Terminal. Nexen said it has good relations with its neighbors and there have been no threats to the pipeline, but noted that both facilities are focused on the safety and security of operations and personnel. Since the October 2002 attack on the French tanker "Limburg" and the 2003 Riyadh bombings, Nexen has increased its security posture by purchasing new vessels for maritime patrols, fencing in its airstrips, and installing additional barriers. End summary.

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CPF: Security and Coordination  
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12. (c) Embassy officials met with Central Pumping Facility (CPF) Production Manager Ralph Johnson, Environmental Health and Safety Director Alan Phillips, and Administrative Manager Mohammed Bin Naibhan. The CPF is a self-sufficient compound with generators, a sewage treatment plant, an airfield, and a helicopter pad. The CPF is protected by both military and contract guards, and the 120 kilometer pipeline to the Terminal has six isolation points -- 4 controlled by the CPF and 2 by the Terminal -- that can be monitored by both.

13. (c) CPF personnel security includes monthly updates of employee lists and a database of electronic copies of employees' passports, which are shared with U.S. Embassy Sana'a. Nexen officials said that all personnel are now flown to/from Sanaa and between the CPF and the Terminal at greater altitudes to decrease any land-based threat.

14. (c) According to Johnson, oil companies Total, DNO, and Dove have tied their lines into the CPF, which is expected to produce between \$275-300 million in revenue over the next 2 years. Nexen, "as the largest and most established company in the region, has also assumed a mentoring role" for their overall operations, including security. There is "constant radio communication" between the four and each has participated in UNDP-sponsored security meetings in Sana'a. In early August, Nexen also held a workshop with local Yemeni officials to discuss contingency plans and clarify appropriate points of contact.

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Terminal: Maritime and Compound Security  
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15. (c) At the Terminal, Embassy officials were escorted by Terminal Manager Nigel Precious and Crude Oil Exports Superintendent Barry Herbert. Completely self-sufficient, the Terminal operates 24 hours a day, 7 days a week to prepare and batch oil from the CPF to meet quality and quantity standards for export. Two expansion groups are currently onsite: one studying the feasibility of adding a second SBM (Single Buoy Mooring); the other conducting maintenance on storage tanks. Nexen is also providing ROYG guidance and coastal surveys for a proposed ROYG refinery a few miles east of the Terminal. (Comment: If the project goes forward, the ROYG will likely use Nexen's SBM for export. End comment.)

16. (c) According to Precious, Chevron, Texaco and other routine consumers share information and observations on Nexen and ROYG's security posture, "which have a direct impact on the entire industry." In response to the 2003 bombings in Riyadh, Nexen increased the Terminal's physical security by installing additional barriers and fencing in the airfield. Nexen officials said the ROYG military presence around the facility has also improved. Foresight and "luck" saved Nexen considerable financial loss when the Limburg was attacked in October 2002 on its way to pick-up over one million barrels of oil. Nexen had just completed a 1 million barrel storage tank and was able to hold the excess until alternative transportation was found.

17. (c) As part of ongoing efforts to strengthen maritime security, Nexen also recently purchased four Delta 10m ribs with twin 315-horse power engines. These vessels are more sophisticated than those Nexen's maritime security force (9 ROYG officers) had been using, and, while Delta trainers accompanied the boats upon delivery, the ROYG-contracted

Pakistani trainers who took over upon their departure were "a disaster." Nexen has now entered a month-to-month training contract with the British-based Hart Group.

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Community Relations  
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18. (c) Both the Terminal and CPF have extensive community relations programs. In 1998 Nexen made a strategic decision to provide support to the local population via the local government. The local councils submit proposals directly to Nexen, and the company decides which to fund. Nexen's medical clinics also offer free health care and medicine to the local population and the military, including medevacs. CPF officials estimate that 2,000 people a month pass through the clinic -- of whom 1,200 are local villagers.

19. (c) A planned bypass in Wadi Arab to take the pipeline out of the way of mudslides may impact community relations. The villages along this portion of the pipeline help Nexen dig out when floods bury the line, and moving the line will mean a local loss of revenue. Nexen has maintained open lines of communication with the villagers throughout the deliberation phase to prepare them for change.

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Nexen Operations At A Glance  
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10. (c) CPF Location: Masila, 2 hours southeast of Seiyun;

Employees: 2000 , 270 expats including 9 Americans;

Pumping Capacity: 1700 million barrels since first oil in 1993;

-- 280,000 barrels of oil per day;

-- 7,500 barrels of diesel per day.

11. (c) Terminal Location: As-Shahir, 2 hours east of Riyan International Airport, 2.5 hours east of Mukalla

Employees: 100-120 people onsite;

Storage Capacity: 3 - 3.5 million barrel storage capacity, including a 1 million barrel storage tank;

Export Capacity: 7 billion barrels since 1993;

-- Single 36" export line;

-- 8.5 - 9 million barrels of oil per month;

-- 8 - 9 ships per month including small lifts (500,000 barrels) and large lifts (1.9 million barrels);

-- 60,000 barrels per hour loading rate.

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